



**PacifiCorp Proposal for Pricing Proposals for Network Upgrades
And Expansions, including Participant Funding
Proposal Matrix for Technical Conference November 6, 2002
Docket No. RM01-12-000**

PacifiCorp's System and Goals

- Unlike most other utilities in the Western Interconnection, PacifiCorp's transmission system spans every corner and diversity in the Western System. The Western Region from a WECC/NERC Reliability perspective is organized into four reporting areas or sub-regions. Developing RTOs in the West generally have similar footprints as the WECC sub-regions. PacifiCorp, while being contained mostly within the proposed RTO West footprint (that is similar to the NWPP sub-region), connects directly with all other sub-regions and proposed RTOs in the West.
- Large diversity in Generation and load location/characteristics, fuel, weather, utility jurisdiction, and ownership have caused the system, especially PacifiCorp's, to evolve in the West into a much less homogeneous mix than in other parts of the country. This requires the need for variations in standardized market design between the West and other areas of North America as well as within the West itself in certain instances.
- PacifiCorp has therefore pursued participation in the voluntary formation of RTO West. RTO West has developed a pricing and market design proposal through a negotiated compromise that captures Order 2000 requirements, is similar to SMD in most ways, and fits with the Northwest and Western system.
- The set of pricing policies and methods proposed by RTO West attempt to create a smooth transition from present to new market design while minimizing significant cost shifts among customers.
- SMD pricing policy, especially regarding system expansion, needs to be flexible to allow for voluntary RTO formation in the West.
- PacifiCorp's proposed Basic Pricing Structure within which expansion funding fits is:
 - License Plate Access Fee Pricing Areas (Access Areas) within RTOs in Western system to eliminate pancaking;
 - License Plate Fee Areas with Transfer Fees between Areas, and Export Fees at least for the transition period; and
 - Seamless Market Design with other Sub-Regions and Western RTOs.

Categories of Expansion Investments

1) Region-Wide Reliability

Type of Facilities

- Main grid transmission facilities that can affect the reliability and adequacy of the system to serve load regardless of price, over wide area; affect inter-related nomograms in various sub-regions and on major transfer paths.
- Lack of this transmission reduces the ability of the system TTC to deliver adequate resources and RAR across the system.

Pricing Policy - Regional Rolled In, some Beneficiaries Pay

- For this type of expansion, region-wide rolled in pricing should be used with Access Areas.
- If specific Access Areas are identified as not having met reliability standards, and costs are specific to an area, costs can be prorated to specific area.

Regional Variations

- Criteria defining voltage levels and type of facilities must allow for sub-regional variations. While in some areas of the West loss of a 500 Kv line only affects TTC in the local area, there are some 230 Kv and 115 Kv lines in the sparser areas that affect transfer capabilities and the reserve requirements across the entire system.
- The dividing line between transmission affecting Reliability and Adequacy versus Economic and Price Optionality is very dependent on location in the West.

Congestion Revenue Rights

- Likely in this case, the expansion is needed to maintain existing obligations.
- Any new capacity that might result should have CRRs auctioned with revenues used to reduce rolled in costs.

Proposed Planning Method & Remaining Barriers

- Requires region wide entity to facilitate regional planning and development of criteria.
- Requires involvement of Regional State Committee.
- Multi-State area with differing State policies on environmental, siting, tax, etc. can stall expansion; FERC needs to assure that allocation of rolled in costs cannot be stalled or vetoed by states.
- Multiple Jurisdictions including non-jurisdictional islands leave dispute resolution unclear.

2) Local Reliability

Type of Facilities

- Transmission facilities that affect the reliability and adequacy of service to or within one (maybe two) Access Areas within a sub-region or RTO/ITP; generally subtransmission, or transmission radial from the main grid to a load area.
- Facilities have little effect on nomograms specifying main grid transfer path capabilities.

Pricing Method - Local License Plate Pricing

- Area Access Charge - Company Rate during transition.

Regional Variations

- Variations allowed in area reliability criteria, operating standards; e.g. urban, rural, state requirements.

Congestion Revenue Rights

- LSE's that pay access fee get CRRs for expected use.

Proposed Planning Method & Remaining Barriers

- Coordinated local area planning and criteria with RTO/ITP and Regional Planning.

3) Congestion Relief

Area to Area Congestion

Type of Facilities:

- Network upgrades that add capacity from Customer Interconnection into Main Grid and/or across a limited part of the grid that is constrained. Not facilities that add capacity from generation areas to hubs across the system.

Pricing Policy - Market Based Participant Funding

- Participant pays for upgrades and receives associated CRRs.

Regional Variations

- Various levels of "latent" capacity and differing levels of synergistic benefits should be properly allocated or accounted for, will vary between sub-regions.

Congestion Revenue Rights

- MBPF party receives CRRs between Receipt and Delivery points negotiated with RTO/ITP.

Proposed Planning Method & Remaining Barriers

- Will require a Regional Planning process with RTO/ITP backstop allocation of costs and benefits if and when requested by MBPF party.
- RTO/ITP will need to determine "latent capacity" and other growth related capacity balance.
- Barrier – MBPF party's CRRs will be devalued since the new transmission will generally eliminate the congestion revenues flowing back to the CRR holder, raising that party's fixed costs.

Region Wide Economic Expansion

Type of Facilities

- Large-scale transmission facilities to link inexpensive generation areas of the West to major load areas, or to link generation areas to regional hubs.

Pricing Method - Regional Rolled In

- Access Areas across entire Region receive allocated portion of facility addition costs.
- Load Serving Areas pay Area Access fees.

Regional Variations

- Western region load geography and location of inexpensive and renewable resources; development of transmission to these resources benefits all customers but facilitates coal and renewables as opposed to close-in gas fired generation.
- Will need policy and multi-state agreements.

Congestion Revenue Rights

- Resulting CRRs obtained via auctions with revenues reducing facility cost and allocations.

Proposed Planning Method & Remaining Barriers

- Requires Regional State Committee and Multi-State and Regional Planning Process with authority to allocate costs among RTOs/ITPs and Access Areas, and to develop criteria/standards.
- Large-scale transmission infrastructure facilitates coal and renewables resources, benefits all consumers; but is too expensive for any individual set of customers to finance.

Region Wide Economic Expansion, continued

Proposed Planning Method & Remaining Barriers, continued

- Multi-State area with differing State policies on environmental, siting, tax, etc. can stall expansion; FERC needs to assure that allocation of rolled in costs cannot be stalled or vetoed by states.
- Requires West-wide seamless market design and level playing field for distribution of benefits and costs. Non-participating areas including non-jurisdictional islands will benefit and could be exempt from costs unless full regional planning and reciprocity exist.

Chronic Congestion

Type of Facilities

- Thin transmission where the constraint significantly affects the amount and duration of prices on either side, but has no participants willing to upgrade.

Pricing Policy - Beneficiary Pays

Regional Variations

- Very much related to market power issues and type of Market Mitigation process used.

Congestion Revenue Rights

- CRRs are allocated to those assigned the costs by the RTO/ITP.

Proposed Planning Method & Remaining Barriers

- Requires RTO/ITP authority to identify and backstop.
- May require Multi-State and Regional Planning Process with authority to allocate costs among RTOs/ITPs and Access Areas.

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